MEMORANDUM FOR: Acting Director

Attached are some thoughts in response to your query on why the foreign exchange market can't be regulated the same way as the stock exchange is.

[redacted] 25X1

Paul V. Walsh
Acting DDI

Attachment

10 Aug 1973
(DATE)

FORM NO. 101 REPLACES FORM 10-101
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10 AUG 1973

MEMORANDUM FOR: Director of Central Intelligence

FROM : Acting Deputy Director for Intelligence

SUBJECT : Regulating the International Foreign Exchange Markets

1. There are striking differences between a stock exchange and the international foreign exchange market. The kinds of regulation that generally work reasonably well for stock exchanges thus are inapplicable to control of foreign exchange markets. US regulation of stock exchange is of two general kinds. The first requires disclosure of basic financial data by listed firms and the proscription of the use of inside information. The second is concerned with credit margins. No effort is made to limit speculation. There is almost no question of inside information on the foreign exchange markets; the information used by speculators and money managers is available to all. Generally, there are no credit considerations either, since one currency is readily exchanged for another.

2. It would be extremely difficult, if not impossible, to regulate the international foreign exchange market. In part, this is because of the market's enormous size and worldwide character. On the New York foreign exchange market, for example, volume may reach $30 billion on a very busy day, or nearly 60 times volume on the New York Stock Exchange, and New York is only one of many foreign exchange markets. There are no criteria for easily distinguishing ordinary payments for goods and services from speculative operations. Is it speculation or prudence when a corporate money manager moves his assets out of pounds and into marks when he believes the pound likely to be devalued? Regulation of this kind of

transaction would require an inquiry into the money manager's motives -- a process that would not only raise serious questions of equity but also would paralyze a market handling millions of transactions daily. To be effective, controls would have to be applied worldwide, at the cost of a probably unacceptable loss of national sovereignty by the major countries over their monetary affairs. In the absence of worldwide agreement and enforcement, controls would prove ineffective; the foreign exchange market would simply move to a country where controls were not applied. The present US administration generally opposes worldwide capital controls because it recognizes the difficulties of administration and the potentially adverse impact on trade and investment.

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PAUL V. WALSH
Acting Deputy Director
for Intelligence

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